

# HOUSE BILL REPORT

## HB 2940

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### As Reported by House Committee On:

Insurance, Financial Services & Consumer Protection

**Title:** An act relating to establishing the veteran-owned business linked deposit program.

**Brief Description:** Establishing the veteran-owned business linked deposit program.

**Sponsors:** Representatives Kelley, Warnick, Barlow, McCune, Seaquist, Rodne, VanDeWege, Linville, Liias, Sullivan, Williams, Wood, Rolfes, Campbell, Morrell, Upthegrove, Chase, Kessler and Ormsby.

### Brief History:

#### Committee Activity:

Insurance, Financial Services & Consumer Protection: 1/29/08 [DP].

#### Brief Summary of Bill

- Allows up to \$50 million of the funds available in the Linked Deposit Program to be used for loans to veteran-owned businesses.

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## HOUSE COMMITTEE ON INSURANCE, FINANCIAL SERVICES & CONSUMER PROTECTION

**Majority Report:** Do pass. Signed by 8 members: Representatives Kirby, Chair; Kelley, Vice Chair; Roach, Ranking Minority Member; Hurst, Loomis, Santos, Simpson and Smith.

**Staff:** Jon Hedegard (786-7127).

### Background:

The Linked Deposit Program (Program) was created in 1993. The stated purpose of the Program is to increase access to business capital for the state's certified minority-owned and women-owned businesses. Under the Program, certified businesses can obtain reduced interest rate loans from participating financial institutions.

The State Treasurer (Treasurer) is authorized to use up to \$150 million of short-term state treasury surplus funds for the Program. These funds are deposited with public depositories as certificate of deposits (CDs) on the condition that the public depository make "qualifying

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loans" under the Program. The state foregoes up to 2 percent in interest on the CDs and passes along the savings to the public depository with the condition that the depository reduces the interest rate for the loan recipients. The State Treasurer must reduce the amount of the preference to ensure that the effective interest rate on the CD is not less than 2 percent. If the preference given to a qualified public depository is less than 200 basis points, the qualified public depository may reduce the interest rate on the loans by an amount that corresponds to the reduction in the preference below 200 basis points.

Qualifying loans are loans:

- made to certain minority or women's business enterprises;
- for a period not to exceed 10 years;
- for up to a maximum amount of \$1 million for each individual loan;
- at an interest rate that is at least 2 percentage points below the market rate that normally would be charged for a loan of that type; and
- with points or origination fees limited to 1 percent of the loan principal.

To be eligible the applicant must:

- be a minority and/or a woman;
- have at least 51 percent of ownership of the business; and
- control the business.

Three state agencies are involved in the Program. The State Treasurer is authorized to fund the Program. The Office of Minority and Women's Business Enterprises (OMWBE) certifies the eligibility of the businesses, monitors the performance of loans, and compiles information on borrowers in the program. The Department of Community, Trade and Economic Development provides technical assistance and loan packaging services and, in consultation with the OMWBE, develops performance indicators for the Program.

In 2007 the Legislature enacted a law that created a registry of veteran or service-member owned businesses under the Washington State Department of Veteran Affairs (DVA). The veteran or service-member must control and own at least 51 percent of the business and the business must be legally operating in the State of Washington.

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### **Summary of Bill:**

Up to \$50 million of the funds available under the Linked Deposit Program may be used for loans to veteran-owned businesses.

To participate in the Program, a veteran-owned business must be certified by the DVA as a business:

- in which the veteran owner possesses and exercises sufficient expertise specifically in the business's field of operation to make decisions governing the long-term direction and the day-to-day operations of the business;
- that is organized for profit and performing a commercially useful function; and
- that meets the criteria for a small business concern under chapter 39.19 RCW.

The DVA must notify the Treasurer if a veteran-owned businesses is no longer certified under this section. The written notification to the State Treasurer must contain information regarding the reasons for the decertification and information on financing provided to the veteran-owned business.

The DVA must report on the progress and implementation of the act to the Governor and to the appropriate committees of the Legislature by December 1, 2008.

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**Appropriation:** None.

**Fiscal Note:** Requested on January 25, 2008.

**Effective Date:** The bill takes effect 90 days after adjournment of session in which bill is passed.

**Staff Summary of Public Testimony:**

(In support) When the veterans came back from World War II, they came home to fanfare, acclaim, and economic opportunities. The veterans from recent decades have received a less positive reaction and fewer opportunities. This bill helps those men and women who return home after serving their country. The DVA supports initiatives that support veterans and it supports this bill. The bill calls for a new role in certifying the businesses. The DVA maintains a registry of veteran-owned businesses but that registry is voluntary. The DVA may have to explore the need for additional resources. There may be up to 20,000 veteran-owned businesses in the state. It may not be a problem but it is possible that staffing may become an issue. The DVA should be able to build on the experience and processes of the OWMBE and be prepared to implement 90 days after session.

(Opposed) None.

**Persons Testifying:** (In support) Alfie Alvarado, Washington State Department of Veterans Affairs.

**Persons Signed In To Testify But Not Testifying:** None.